

## Remarks by Denis McDonough as Prepared for Delivery

### Update Export Control Conference | 7-29-2014

Good afternoon, everyone. Let me begin by thanking Secretary Pritzker, Under Secretary Eric Hirschhorn and their team – for their tremendous leadership in pulling this conference together. This looks outstanding. Also— thank you for giving me this lunch-time slot. I always figure it's a little less likely I'll get heckled while your mouths are full... but I guess we will see.

Also – I hope you won't mind, but I made a last minute decision to scrap the speech I originally prepared – which was “specifically designed” for this event. These remarks will be “specially designed” instead – if that's ok.

But in all seriousness – this event looks outstanding. And you should all know that Penny is both an invaluable member of the President's team, and the best ally you could hope for in government. And she and the President make sure all of us, in the Administration, are on your team at the end of the day. We are – after all – working toward countless shared goals. Growth. A stronger economy. And greater opportunity for all. And we're making great progress.

We've added 9.7 million private sector jobs across the last 52 months. That includes a very strong first half of 2014, with 1.4 million new jobs overall. That's more jobs than we've created in the first six months of any year since 1999.

And thanks to many of you—we have seen especially strong growth in manufacturing. We have added 668,000 new manufacturing jobs, and the manufacturing sector is growing roughly twice as fast as the overall economy. Overall – the U.S. recovery is well ahead of other countries, and we're now 5% above the pre-crisis level of GDP.

Most importantly, we're well positioned versus our global competitors. We continue to lead in innovation and education. We are responsible for over a third of the world's R&D investment, and nearly 30 percent of all patents - worldwide - come from the U.S.

Our workforce remains the most productive in the world. And we now have a new source of competitive advantage: Energy. Record levels of oil and gas production have added 0.2% to GDP growth over the last two years. Natural gas now costs one third as much here as it does in Asia— and our low energy costs save domestic manufacturers tens of billions of dollars annually compared to global competitors.

This is all making us more competitive. The U.S. returned to the top of AT Kearney's Rankings of the most attractive global locations for investment in 2013, and we extended our lead in 2014. And a recent BCG survey found 54 percent of US manufacturers with production abroad are looking to re-shore to the U.S., up from 37 percent in 2012.

So the picture is clear – this is a great moment of opportunity for America. Now, as we have seen this kind of recovery and growth since the depths of the Great Recession, we will continue to use every tool at our disposal to promote continue growth and opportunity.

Today' event provides me the opportunity to acknowledge the hard work of everyone in the room in a very specific way. Between those in the industry, and the public servants with us today— I'm looking at the team who has turned Export Control Reform into reality. And that reality will help our economy

grow and provide more opportunities for American workers. I know I speak for the President when I say – we can't thank you enough for your leadership, your patience, and commitment to progress.

The truth is, this isn't work that will earn you – or the President – many headlines. But that's only because these issues are complex. In reality – your work has a direct impact on nearly everything we do see in the headlines, including job growth, the strength of our economy, and more and more – our national security.

Together, we have made enormous progress on reform over the past five years. There has been unprecedented cooperation between agencies, and incredibly valuable consultation from a range of stakeholders which have brought us to this point. And with your continued help – we see the future only getting brighter.

President Obama envisions a new... synchronized export control system. One which strikes the critical balance between facilitating secure trade with allies and partners – and preventing harm against our citizens and allies when certain items get into the wrong hands.

More than ever, it is clear that our economic security is a key pillar of our national security. And it is also clear that the export control system that we are incrementally replacing was not calibrated to this reality. We need a 21<sup>st</sup> century system that meets our 21<sup>st</sup> century economic needs – as well as confronts modern-day threats.

Our effort to rewrite the State Department's U.S. Munitions List has certainly been our primary, and most public focus to date, but that's simply because of its scope. It touches everything related to a defense system – from an end-item weapon system... to all its nuts, bolts, and screws. This means our rewrite, will have an enormous impact, on a huge number of many people. And we have already made tremendous progress in prioritizing our munitions controls, to help less sensitive items flow more easily to allies, and to allow us to zero in on items and destinations of greater concern.

It has been a rigorous, multi-year effort— and we have effectively prioritized and published 15 out of 21 categories on the Munitions List, accounting for \$87 billion dollars, and supporting 480,000 American jobs. But we need to finish publishing the proposed categories, which is our goal by the end of 2014.

While we continue the transition process, we are already seeing an increase in the use of license exceptions for shipments of less sensitive items like spare aircraft parts, and a wide range of other items which help our allies maintain U.S.-origin systems – or their own systems. This improved flexibility under the Commerce system means we already have greater interoperability with our allies, which also helps to sustain our industrial base. This is one of the most important benefits of ECR.

In 2010 when Secretary of Defense Bob Gates rolled out our ECR work plan, he gave an example of a British C-17 being grounded in Australia for lack of a key part. Not because the part wasn't available... but because under our old export control system, our Australian allies had to seek U.S. permission before making the repair for our British allies.

Under our new system -- that problem is now resolved. New rules in the aircraft sector alone, have led to a net two-thirds reduction in export license applications, as items like the part needed for that British C-17 can now be more easily exported to our allies and partners.

This trend will grow as we complete the remaining categories— and you in the industry fully transition to the new system. It is labor intensive for all of us... but since the beginning of this effort, we accepted that the short-term pain will be worth the long-term gain. And we are approaching the finish line.

We're modernizing controls to keep pace with technology, and committing to regularly review new munitions categories to keep the list current. At the same time, enhancing enforcement continues to be a priority. Since standing up our multi-agency, Export Enforcement Coordination Center in 2012, we are building better cases, sharing information between agencies more efficiently, and bumping into ourselves much less frequently as we work to detect and thwart potential threats.

By coordinating new export enforcement leads through the Coordination Center we have found that in 57 percent of new cases – another department or agency is either already working the lead, or has information that would be helpful to the new investigation. This is making us more efficient, effective... and in the end, keeping us safer.

All this being said— it's important to underscore that rebuilding the munitions list is a key step – but by no means our only one. We are still deep in the second phase of our three phase implementation work plan, which was developed in 2010, and which continues to guide our work. And the remaining items aren't just finishing touches. They are key priorities.

This includes a comprehensive review of the Commerce Control List, to synchronize regulations with our partners and allies... while continuing to streamline our licensing and application processes. We still have complex policy issues to resolve, like updating our encryption controls, as we committed to do in 2010. We also need to look at issues like cloud-computing and cybersecurity. All new items to our ECR plan – intended to help us protect our national security, and economic security – in light of new trends, and new technology.

Throughout this process, we will continue to welcome frank, and transparent consultations with all relevant stakeholders. ECR is already a success story because of how we have all managed to work so well together. And that includes our colleagues on the Hill – which isn't something we get to say often enough these days.

All the work we have done - and all that which remains – is moving us toward the President's vision for a single list, a single licensing agency, a single primary enforcement agency, and a single information technology system. Something I think we can all get behind.

Our hope is to continue holding each other to extremely high standards – as long as there is work left to be done, and progress to be made. The stakes are high for our economy, and the security of our nation – which is why the short-term labor we are all undertaking should feel worthwhile. It will continue to bear fruit for the country, and your business in the long run.

We appreciate your partnership in seeing this effort to its successful conclusion. Please keep reading and commenting on our proposed rules. It has been incredibly helpful to us internally, as well as with our negotiations on the Hill. As with anything – it's usually only frustrated folks who take the time to comment – but you all have bucked that trend. You have been wonderful collaborators, and on behalf of the President, I can't thank you enough for all you continue to do to move our economy forward.

Thank you for welcoming me today.